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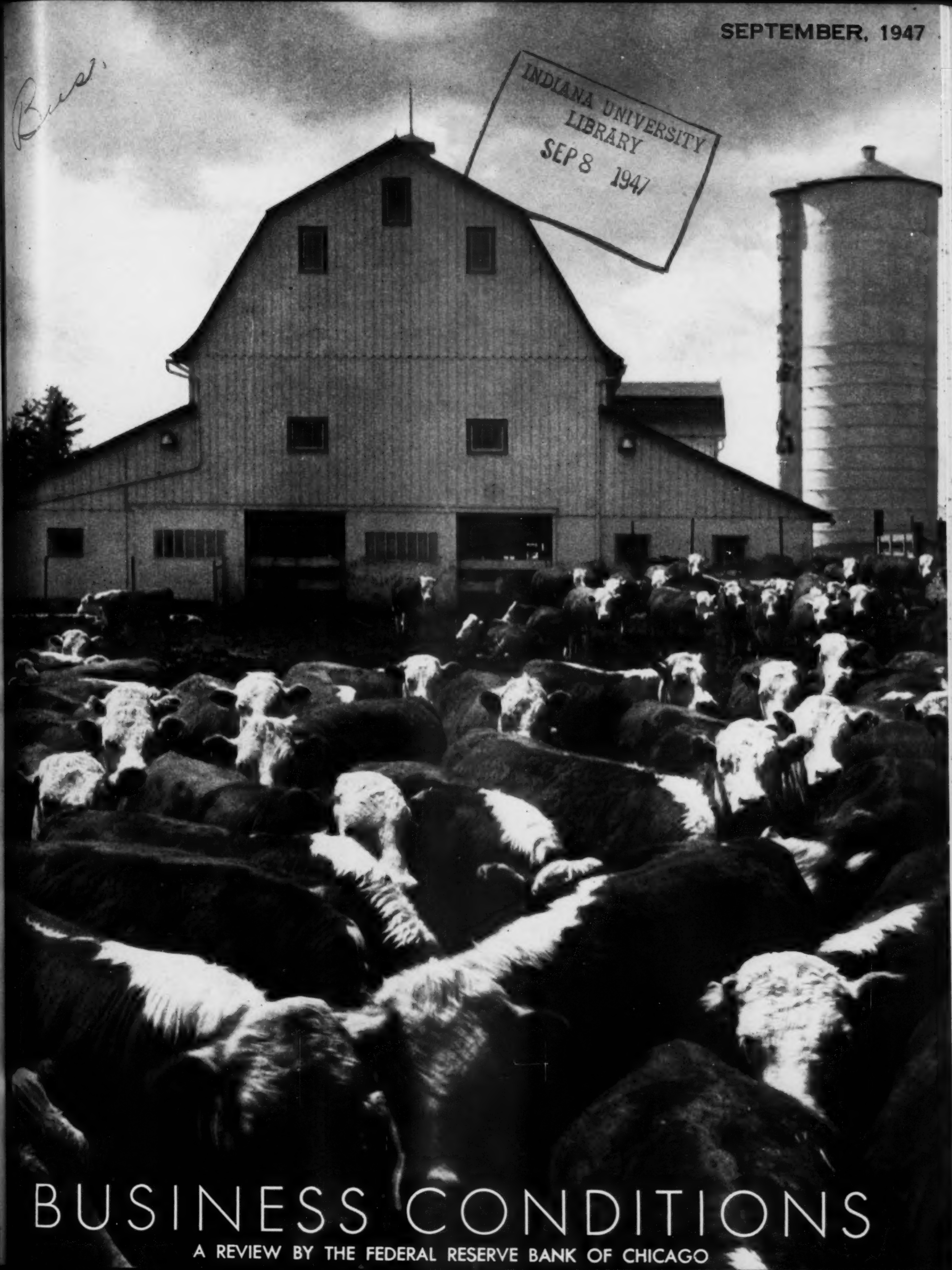
SEPTEMBER, 1947



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Livestock and Meat Situation

Strong Demand Supports High Prices

Although many consumers object to the prevailing high level of meat prices, they as a group have continued to consume meat in record quantities. Per capita civilian consumption of meat may average 153 pounds during 1947, slightly above the year ago level, 15 per cent above the 1937-41 average of 134 pounds, and the highest for any year since 1909. This high level of consumption is made possible by the large production of meat, expected to total 23 billion pounds for 1947, about equal to 1946, and the fourth largest on record. Declines in exports and military requirements will permit per capita civilian consumption to exceed the 1946 level, although total production is about the same.

LARGE PRODUCTION OF BEEF

More of the meat supply this year will be beef and veal with less pork, lamb, and mutton included. Beef and veal production were at a high level during the first half of the year and are expected to account for 52 per cent of total meat production in 1947, compared with an average of 47 per cent in 1937-41. Pork production in 1947 probably will be below the preceding year due to the reduced 1946 fall pig crop, marketed largely during the spring and summer of 1947. Lamb and mutton production may be 20 per cent below 1946 and the smallest of recent years. Fortunately in this respect, however, lamb and mutton normally account for only 5 per cent of the total meat supply, with veal contributing 6 per cent, beef 41 per cent, and pork 48 per cent.

Although total meat production in the first quarter of 1947 was moderately less than in the first quarter of 1946, output during the second quarter was well above a year ago. This high level of meat production may not be maintained through the third quarter of the year, however, due to a greater than usual seasonal decline in pork production. Also, favorable pasture conditions appear to have delayed the usual seasonal rise in marketings of grass-fat cattle. These conditions strengthened livestock prices in July and August and may well provide strong support through September.

From October to the end of the year, meat production will increase seasonally, possibly more than usual, and meat and livestock prices may decline somewhat from the peaks reached in late summer or early fall. Although supplies of well finished cattle are expected to continue small, total marketings of cattle probably will continue at a high level during the remainder of 1947, and possibly in 1948, as farmers reduce further the number of cattle on farms. The outlook for hog marketings during the fourth quarter of 1947 is uncertain. High priced corn may encourage farmers to market hogs at light weights and, therefore, earlier than usual. However, if the corn crop should fail to mature before killing frosts this fall, large amounts of soft corn would need to be fed to livestock. This might delay the seasonal peak in hog marketings and pork production until late in January or February.

SMALL INCREASE IN 1947 PIG CROP

The 1947 spring pig crop was reported to number about 53,151,000 head, one and one-half per cent more than in 1946, and two per cent larger than the 1936-45 average. The number of sows farrowing in the 1947 season was estimated at seven per cent more than in 1946. However, the number of pigs saved per litter averaged 6.1, materially below the average of 6.5 last year, and resulted in only a slight increase over 1946 in the total number of pigs saved.

Farmers' reports on breeding intentions about June 1 indicated a nine per cent increase over 1946 in the number of sows kept for fall farrowing. However, this was two per cent below the 1936-45 average, the number of sows having farrowed last fall being the smallest of recent years. If these breeding intentions materialize, and the number of pigs saved per litter is equal to the 10 year average, the 1947 fall pig crop would be about 32.5 million head, making a total combined spring and fall pig crop of about 85.7 million head, three per cent larger than in 1946 and one per cent above the 1936-45 average.

The size of the 1947 spring pig crop and the prospective fall crop indicates that two to three million more hogs will be slaughtered during the hog marketing year beginning in October 1947 than in the current year. However, if the hog-corn price ratio continues below average, and the corn crop turns out considerably smaller than in 1946, there will be a tendency to market hogs at lighter weights than in the past few years. This would result in little if any increase in pork production from the 1947 pig crops.

CATTLE NUMBERS DECLINING

The number of cattle on farms and ranches is declining. From an estimated peak number of 85.6 million on January 1, 1945, the number declined to 82.4 million a year later and to 81.1 million at the beginning of 1947. The rate of slaughter during the current year indicates that cattle numbers will be reduced further by January 1, 1948.

Shipments of stocker and feeder cattle and calves into eight Corn Belt states during January through June were 19 per cent greater than a year earlier and the largest since 1941. Shipments during May and June were, however, below the abnormally large shipments in those months in 1946.

The number of cattle fed each year is determined largely by the supply of corn and other feeds in relation to the number of livestock on farms. The number of both grain- and hay-consuming animal units on farms at the beginning

(Continued on Inside Back Cover)

Banks Continue to Expand Consumer Financing

Easier Instalment Credit Terms in Prospect

Outstanding consumer credit has now reached a new all-time level of 11 billion dollars, double the V-J Day total, and gives promise of rising at least another billion dollars by the end of the year. The bulk of this increase is expected in instalment sales credit, now comprising 17 per cent of all consumer credit outstanding. Instalment sales credit is the only major consumer credit division which thus far has failed to exceed its 1941 prewar peak[1]. For commercial banks, currently extending at least two-fifths of the total, the general postwar upsurge has meant sharply increased consumer credit lending.

Virtually all Seventh Federal Reserve District member banks[2] are currently making consumer loans, but there is marked variation among individual banks in the type of loan being emphasized. Ninety per cent of the banks have single payment cash loans on their books, and roughly 80 per cent are taking part in personal instalment cash lending and automobile instalment financing. Only two-thirds, however, are engaged in other retail instalment financing and less than half in making home repair and modernization instalment loans (see accompanying table).

Already the dominant *instalment cash* lender before the war, commercial banks have further strengthened their position in the last two years. Bank loans in this category have increased 187 per cent since the end of the war, compared with gains ranging from 63 per cent for small loan companies to 97 per cent in the case of industrial banks. Commercial banks in the District and nation have also considerably expanded *single payment cash* loans, about 50 per cent since V-J Day. Except for a relatively small pawnbroker volume, virtually all reported single payment loans are made by banks.

[1]The other major divisions and their respective percentages of total consumer credit outstanding are: instalment loans, 27; charge accounts, 27; single payment loans, 21; and service credit, 8.
[2]Except as otherwise indicated, industrial banks are excluded from this discussion.

PERCENTAGE OF SEVENTH FEDERAL RESERVE DISTRICT MEMBER BANKS HOLDING CONSUMER LOANS, BY TYPE OF LOAN AND SIZE OF CITY, JUNE 30, 1947[1]

Area	Total Number of Banks	Automobile Paper	Other Retail Paper	Repair and Modernization Instalment Loans	Instalment Cash Loans	Single Payment Loans
Chicago	57	86	58	82	95	86
Detroit	5	100	60	100	100	100
All cities over 50,000 population	141	88	67	86	94	85
Cities 5,000-50,000 population	327	86	74	66	89	94
Cities under 5,000 population	531	70	59	26	68	88
All District Banks	999	78	65	47	79	90

[1]Excludes industrial banks.

Since V-J Day, both commercial banks and sales finance companies have experienced increases in automobile instalment receivables of slightly over 300 per cent, and in other retail instalment receivables almost 350 per cent. Such high percentage figures are partly the result of the low absolute level to which instalment selling fell as the result of the sharp wartime curtailment in the production of durable consumer goods and price increases. These gains would have been even higher, however, if work stoppages had not delayed the resumption of postwar production of durable consumer goods late in 1945 and early in 1946. At present, total automobile credit is 41 per cent and other paper 61 per cent of their respective 1941 levels. As indicated in *Business Conditions* for August 1946, it is in the instalment sales segment of the consumer credit field that commercial banks have made the least relative progress and face the greatest problems in the future. Although holding their own thus far in the postwar period, banks have not increased their portion of retail instalment receivables in the hands of all financial institutions.

Abnormal conditions prevailing since V-J Day make difficult even a tentative evaluation of the ultimate position which commercial banks may be expected to assume in instalment cash lending and retail instalment sales financing. With the reversion of consumer expenditures-savings patterns toward prewar norms, the growing production of consumer durable goods, and the prospective relaxation of credit terms with the end of Regulation W on November 1, consumer instalment financing will in the coming months be carried on under more "normal" conditions. The "permanent" relative positions of the several types of financing agencies should emerge somewhat more clearly in 1948.

DISTRICT MEMBER BANK LENDING PATTERN

Consumer loans of Seventh District member banks aggregated 450 million dollars on June 30, 1947, one-eighth of total member bank loans and discounts, and an increase of 140 per cent since V-J Day. The preponderance of this financing is concentrated in banks located in the larger population centers. At midyear, for example, 79 member banks in Chicago, Detroit, Milwaukee, and Indianapolis together accounted for 55 and 51 per cent, respectively, of outstanding single payment and instalment credits extended by the District's 1,000 member banks. The corresponding figures for banks in all District cities of 50,000 population and over are 74 and 76, respectively (see Chart 1). These general levels also apply to automobile and other retail instalment financing. In the case of instalment cash loans the

dominance of cities with populations of 50,000 and over is not quite so pronounced, 63 per cent. Member banks in District cities under 5,000 population accounted for only about seven per cent of all outstanding consumer credits as of June 30, 1947. Inclusion of all nonmember insured banks raises the last percentage only slightly.

AUTOMOBILE INSTALMENT FINANCING

At the end of June, automobile paper accounted for 37 per cent of all outstanding consumer instalment credits of District member banks. This figure varied gradually downward from 48 per cent in cities under 5,000 population to 32 per cent in cities over 50,000 persons (see Chart 2). The greater percentages in the smaller cities reflect less intense competition from sales finance companies and somewhat less demand for other types of consumer instalment credit.

Among the District's major cities, the corresponding percentages varied from 40 in Chicago to 10 in Indianapolis. Such variations are partly the result of differences in the extent to which major banks in each metropolis solicit automobile instalment financing business and, somewhat paradoxically, the nature and extent of bank relationships with finance companies. In Chicago, for example, over two-thirds of the bank-held automobile paper was purchased from finance companies under arrangements whereby the latter originate the business from dealers and service the collections. If these finance companies retained title to the paper and deposited it as collateral for straight loans, the banks would then report the resulting loans in the commercial and industrial rather than in the consumer instalment (automobile) category. The practice of purchasing automobile paper from finance companies is less extensive among banks in Detroit, Milwaukee, and Indianapolis.

Except for the area west of the Rockies, commercial banks have relied largely on direct solicitation of consumers in developing retail automobile instalment financing business. Finance companies on the contrary have concentrated on building dealer relationships. Since V-J Day, purchased automobile paper of all commercial banks in the nation has increased much faster, over 360 per cent, than direct consumer automobile instalment loans, 270 per cent. Judging from Seventh District experience, however, a considerable part of the increase in purchased paper is the result of purchases from finance companies. Allowing for this point, there does not seem to be any concerted swing on the part of banks, in the Seventh District at least, from the consumer to the dealer route, in developing automobile financing business.

For several reasons, outstanding automobile instalment credit promises to increase substantially by the end of 1947, perhaps as much as 50 per cent over the midyear level. Although still handicapped by the shortage of certain materials, automobile production has reached a rate of approximately 3,750,000 passenger cars a year, considerably above the average of the prewar decade. As a result of some relative drop in "fleet" sales, rising cost of living, and depleted individual savings, almost 30 per cent of the current dollar volume of automobile sales is on credit, compared with less than 20 per cent a year ago. This percentage will undoubtedly continue to climb toward the prewar level of over 50 per cent. Since almost one-third of Seventh District member bank automobile paper is now generated through purchases from finance companies, the extent to which this practice is continued will be an important factor determining the future course of District bank automobile paper portfolios. Promotional efforts aimed at consumers and dealers also will be important determinants.

OTHER RETAIL INSTALMENT FINANCING

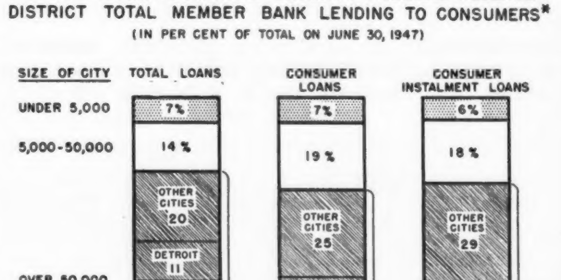
Other retail instalment financing (including home repair and modernization loans, and paper covering consumer goods other than automobiles) shows two outstanding characteristics: (1) it is the most important type of District member bank consumer instalment financing, comprising 43 per cent of the total on June 30, 1947, as indicated in Chart 2; and (2) it is more unevenly distributed among individual banks than other types of consumer instalment credits. Only about one-half of the banks in District cities under 50,000 persons have such loans in their portfolios and then only in modest amounts. These banks account for less than 15 per cent of this type of financing in the District as a whole. Within the largest cities, although the proportion is somewhat greater, the volume is heavily concentrated, almost one-half of the District total being accounted for by eight banks.

If retailers generally depended upon financing agencies as much as automobile dealers, the volume of other retail instalment paper in the hands of banks would be considerably larger. The relatively smaller volume of such bank-held paper in the smaller cities probably results from less widespread use locally of major consumer durables other than automobiles and also indicates a somewhat greater tendency toward owner-labor in home repair and modernization. Arrangements between certain banks and large retail-

CHART I

LARGE CITIES DOMINATE SEVENTH FEDERAL RESERVE DISTRICT TOTAL MEMBER BANK LENDING TO CONSUMERS*

(IN PER CENT OF TOTAL ON JUNE 30, 1947)

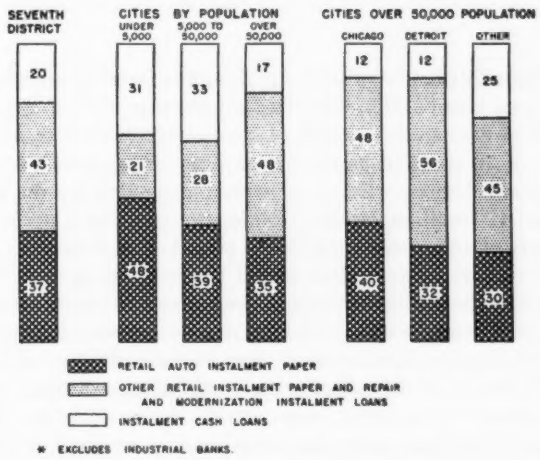


* EXCLUDES INDUSTRIAL BANKS.

CHART 2

BANKS IN SMALLER DISTRICT CITIES ACTIVELY ENGAGE IN AUTOMOBILE AND INSTALMENT CASH LENDING*

PERCENTAGE DISTRIBUTION OF CONSUMER INSTALMENT LOANS BY TYPE IN MEMBER BANKS BY SIZE OF CITY, JUNE 30, 1947



ers, including public utilities, account for the uneven distribution of the volume of other retail instalment financing among the larger city banks.

CASH LENDING

Personal instalment lending constitutes one of the earliest consumer instalment financing activities of most banks. Not only do more District member banks engage in such lending than in any other type of consumer instalment financing, but the volume is more evenly distributed among individual banks and among banks in cities of different sizes. Banks in cities under 50,000 population accounted for over one-third of all District personal instalment loans on June 30.

Commercial banks are subject to competition from industrial banks, industrial loan companies, and small loan companies. Among the major factors affecting competitive positions is the loan limit to any single borrower. Small loan companies at present are particularly concerned with this problem. In Illinois and Michigan they have secured amendments this year to the Uniform Small Loan Law, increasing the permissible loan limit to any one borrower from $300 to $500. In certain other states loan companies are exceeding small loan law limits by operating under general usury statutes. In Wisconsin and Indiana similar results have been accomplished through one management operating both a small loan company and an industrial loan company, the latter having higher loan limits.

The recently formed Indiana Association of Consumer Credit Banks aims to strengthen the position of commercial banks in the consumer loan field through a five-point legislative program. This includes limiting operations of small loan and industrial loan companies to their home counties and completely separating operations of the two types of companies. Nonbank agencies have in turn organized a trade association to promote their interests. Industrial banks, by virtue of also being state or national banks, are on an equal competitive footing with commercial banks.

Single payment cash loans, although showing the least postwar growth, still comprised 47 per cent of all consumer loans of District member banks at midyear. Heavily concentrated in a few of the larger banks in the metropolitan centers, about three-fourths of these loans were accounted for by banks in cities of 50,000 persons and over. There is some tendency for banks to convert single payment into instalment loans to obtain greater return and more systematic provisions for repayment.

CREDIT TERMS

The complete termination of Federal consumer credit regulation by November 1 will give further impetus to the volume of outstanding instalment credit, particularly automobile. Although the end of Regulation W will exert further inflationary force in the economy, the financial community seems to be more concerned with two other aspects of weakened credit terms: (1) undesirable use as a competitive weapon, and (2) increased delinquencies.

Available evidence points to progressively weakening credit terms for a time after Regulation W expires. Recent recommendations of the American Bankers Association and a simultaneous announcement by one of the national finance companies indicate that maturities on automobile and other durable commodity credits, on the average, will exceed the present 15-month limit. Considerable relaxation also appears certain on down payment requirements.

Terms on credit sales of commodities exempted previously from Regulation W have since shown definite easing tendencies. Average collections of charge accounts have slowed down, and delinquencies have increased since the elimination of control in the autumn of 1946. Similar trends have also been apparent in home repair and modernization instalment loans and in the instalment sales of such items as pianos and bicycles. Instances of maturities of three years or more and of down payments under 10 per cent are not uncommon among Midwestern piano sellers.

Pianos and bicycles illustrate the pressure on sellers to make terms easier when supply-demand relationships become more normal, a condition now being approached by numerous goods typically sold on the instalment plan. However, even for items still in short supply, such as automobiles, dealers may be willing to substitute instalment for cash sales or to make instalment sales on somewhat more lenient terms than presently allowable as a means of supplementing their income.

Terms considerably in excess of those permitted by Regulation W are, of course, quite compatible with safety of principal. This is another way of saying that the primary function of Regulation W lies in another direction, i.e., to exert a stabilizing over-all influence on the economy.

Part of the small increase in delinquencies in the last year has been the natural consequence of the increased credit business resulting from the return of civilian production toward more normal levels. Delinquencies are, however, still considerably below prewar levels and will probably remain so in the months immediately ahead.

Money Market Developments

Banks Adjust to Peacetime Factors

With the termination of the Treasury's large-scale debt retirement program, the resulting pressure on bank reserves was relaxed in mid-June. Except for 200 million dollars of Treasury bills, no marketable debt has been redeemed for cash since the one billion dollar pay-off of June 1 certificates. Subsequently, other money market factors have assumed relatively greater influence over member bank reserves.

The effect of bank demand for long-term securities on the market for Governments has been offset to some extent by continued sales of securities from Treasury investment accounts. These sales have reduced the downward pressure on long-term yields, particularly on the ineligible issues.

BANK RESERVES AND DEPOSITS

Bank reserve positions and the demand for Federal Reserve credit have reflected largely Treasury receipts and disbursements, gold and foreign account operations, and changes in money in circulation. Treasury expenditures were heavy after the middle of June, including over 700 million dollars of quarterly interest payments on the public debt and the redemption of about 350 million of savings notes. Most of these disbursements were made out of funds previously accumulated with the Reserve Banks. Banks used the reserves gained from these transactions and from gold inflow and disbursements from foreign accounts to repurchase Treasury bills and to build up their excess reserves. Late in the month and early in July, the market was again temporarily under pressure as reserves were drained out of the banks by income tax collections, the pre-holiday outflow of currency, and a moderate increase in required reserves as war loan deposit accounts were again made subject to reserve requirements on July 1. In the final week of July, reserves were again under pressure, most of which was attributable to payments for the 250 million of securities issued by the World Bank.

Two significant factors which have supported member bank reserves are gold and foreign account operations and the reduction in currency outflow. As a result of heavy foreign purchases of goods in excess of our imports, there has been a persistent inflow of gold and disbursements from foreign accounts since the end of 1945. United States monetary gold stock rose almost 700 million dollars in the 11 weeks ended August 13, and is 1.3 billion over the level of a year ago despite our payment in gold of almost 700 million dollars to the International Monetary Fund.

Meanwhile, member bank investments in Government securities have increased in recent weeks following a sustained decline accompanying rapid retirement of bank-held debt by the Treasury. Reporting banks in leading cities showed a net increase of more than 600 million dollars in total Governments in the seven weeks ended July 23, including an increase in United States bonds of almost 300 million. Bill holdings were up 480 million, while certificates dropped about 100 million. In the following week substantial sales of bills and continued sales of certificates offset a large part of the previous increase in total reporting bank holdings. Treasury bond portfolios, however, expanded by an additional 120 million dollars. Holdings of Governments by the Reserve Banks during the entire period rose moderately, the 600 million dollar decline in bill holdings being more than offset by the acquisition of a larger amount of certificates.

Total loans also showed a moderate increase during this period despite the seasonal decline in the early part of June. Real estate and other loans, except those on securities, have continued the upward trend which began early in 1946. Deposits of businesses and individuals continued to grow with the expansion of loans and investments. Demand deposits adjusted of the weekly reporting member banks rose more than 800 million dollars in June and July but were reduced in the first two weeks of August.

GOVERNMENT SECURITY MARKET

The market for long-term Government securities has remained fairly steady despite the recent actions connected with the Treasury's debt management policy. After the relaxation early in July of the Federal Reserve rate peg on Treasury bills, the demand for bonds continued to be strong, and price advances have been relatively greater on the long-term unrestricted issues.

Termination of the buying rate on bills and the repurchase privilege was explained as a move to restore the bill as a market instrument and to give added flexibility to the Treasury's debt management program. It frees the bill rate to reach a level in the market which is appropriate in relation to yields on certificates of indebtedness. The move does not, however, imply a free market. The directive stated that the System will continue to buy and sell bills as well as other Governments in order to maintain an orderly Government security market. The new Treasury bill procedure was first applied to the bills offered July 10. In the following weeks the yield has stabilized at about 0.74 per cent, approaching the yield on certificates of a similar maturity.

Other steps which have influenced the Government security market are related to the Treasury's certificate refunding program. The 1.2 billion August 1 certificates were replaced by a similar ⅞ per cent issue but with an eleven-month maturity, and it was recently announced that ten-month ⅞ per cent certificates will be offered in exchange for the 2.3 billion of September 1 maturities, making a total of 6.5 billion dollars in certificates which will mature July 1, 1948. It was also indicated that the 1.7 billion 1¼ per cent notes and the 2.7 billion 1½ per cent notes maturing September 15 will be refunded into 1 per cent 12½-month notes.

Iowa State Finance—II

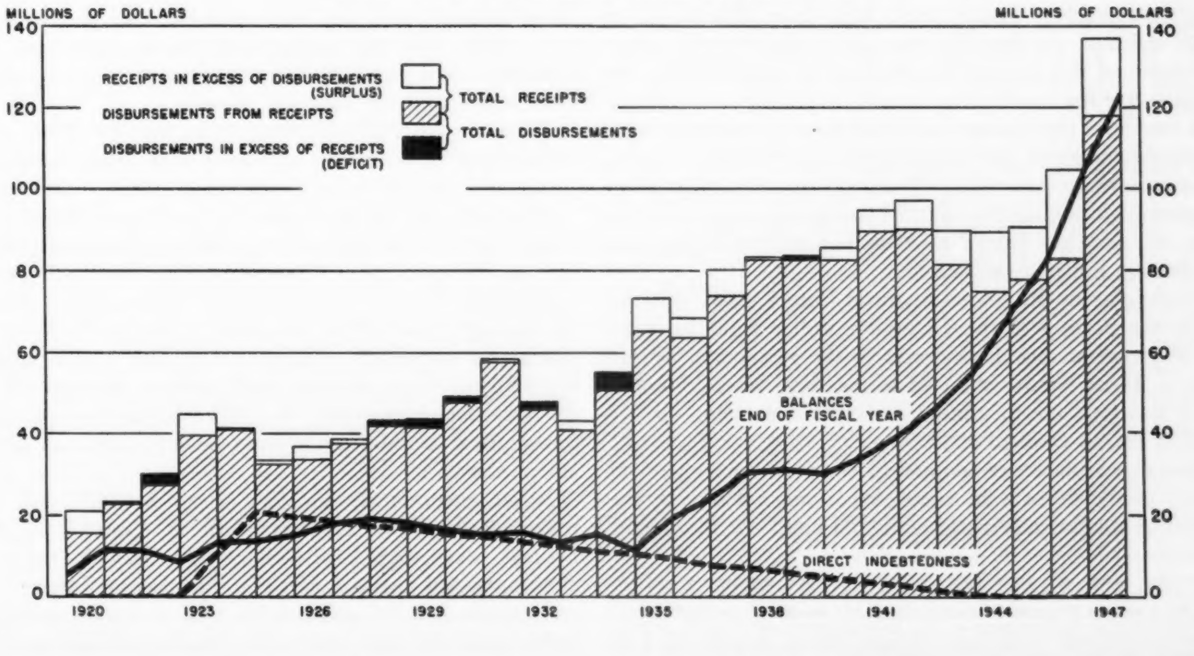
Postwar Revenues Keep Pace with Expenditures

The widely anticipated postwar worsening in state finances has yet to materialize in Iowa. As is well known, during the war state governments generally fortified their cash position. Tax receipts were augmented by rising prices and the high level of the nation's business. State expenditures were deliberately and involuntarily reduced or postponed in order that more of the country's energies could be bent to the prosecution of the war. The resulting annual surpluses accumulated in cash and investment balances. It was then generally assumed that in the early postwar years the situation would be reversed. A recession in business activity was inevitable; it would have a depressing effect on tax yields. Substantial demands on the states' cash resources for expanding welfare services, salary adjustments for employees, and capital outlays for equipment and facilities were expected to result in a rapid depletion of war accumulated surpluses.

These predictions as to postwar state finances have yet to be borne out, though in some jurisdictions a substantial reversal of the trend in the relationship of revenues to expenditures may be noted. Payroll commitments, for example, are up sharply, the increase being found in both the number of state employees and their average compensation. The U. S. Bureau of the Census reports that in April 1947 there were 3.7 million state and local government employees, an increase of 18 per cent from April 1945 employment. The advance in monthly payrolls was almost twice as pronounced—up 38 per cent. State employment and payrolls constitute between 20 and 25 per cent of the total for both state and local governments.

On the other hand the actual disbursements of state monies for the projected postwar construction of highways and public buildings at educational, health, and welfare institutions are still being largely deferred because of sharply advanced costs and a desire to avoid competition for resources needed in housing construction. Proposals for veterans' bonuses and assistance are receiving favorable consideration in many states and will entail large expenditures, but these usually involve long-term financing. The recession in business conditions and price levels has not occurred, and state tax yields have continued to set new records. Rising prices and changes in the pattern of consumer expenditure since the war have been a tremendous stimulus to net income and sales tax yields. The net effect of these

RECEIPTS, DISBURSEMENTS, AND BALANCES
STATE OF IOWA OPERATING FUNDS
FISCAL YEARS ENDING JUNE 30, 1920-47



factors upon the financial condition of the states generally has been much less marked than anticipated. New state taxes, higher rates for existing levies, or a generous use of state credit now awaits a full scale resumption of capital outlays, larger aids to local governments, a reversal in price trends and the level of economic activity, or some combination of these factors.

An over-all picture of Iowa state finances indicates that on June 30, 1947, the State was in exceptionally healthy financial condition, even for a period of prosperity. The character of the State's revenue structure discussed in the August issue of *Business Conditions* provides a tax system which responds promptly to changes in prices and business activity. Revenue receipts accrue at more frequent periods throughout the year, and the new taxes introduced in the 1930's are less susceptible to the hazard of delinquency than the property tax on which the State rested major dependence two decades ago. All direct state debt has been retired, and existing indirect obligations will be reduced to nominal proportions by 1950. The level of state expenditure since the war has increased rather sharply but hardly out of proportion to other economic series. The cash and investment balance in the state treasury is equivalent to a full year's expenditure.

INCOME, OUTGO, AND BALANCES 1920-47

For nearly three decades annual state expenditures from the operating funds have only infrequently been in excess of receipts.[1] Except for the years 1928-34 when the balance on hand progressively declined, deficits have been casual and small. During the 1920's the annual balance on hand fluctuated at an amount equivalent to four to six months' average expenditure. At the end of the fiscal year 1934 the balance on hand was only sufficient, assuming the prevailing segregation of funds could have been eliminated, to have operated the State for two and a half months. Since a portion of this balance was tied up in closed banks, the condition of the State's treasury was indeed precarious. From this low level the cash on hand has steadily increased both in absolute amount and relative to the total of expenditures. The balance on June 30, 1947, of 123 million dollars is an all-time high. The greater part of this total has accumulated from net additions from 7 to 20 million dollars during each of the war and postwar years.

Highlights in the State's financial history since 1920 include the floating of the 22 million dollar bond issue for the payment of a soldier's bonus to the veterans of World War I. These bonds were sold in the fiscal years 1922 and 1923 and paid off in annual principal instalments of 1.1 million dollars through 1943.

The drastic measures adopted by the state government to insure public deposits in closed banks are not directly reflected in the accompanying table and chart. At the height of the depression, public funds belonging to the state and local governments frozen in closed banks were estimated to aggregate 17 million dollars. The State had earlier (1926) undertaken to insure such deposits, but the resources of the State Sinking Fund for Public Deposits were temporarily inadequate to meet the demands on it. The magnitude of this financial commitment is indicated by the total claims paid during the twenty-year life of the Fund; they have totaled 35.7 million dollars. The burden of deposit insurance was an additional aggravation of the financial difficulty which beset the State during the early 1930's.

The role of Federal aid in combatting the effects of severe depression and unemployment is reflected in the accompanying table. In the late 1920's Federal aid—principally for highways—was about seven per cent of total state revenues. In the fiscal years 1931-33 it increased to 12 per cent, and was 21 per cent in 1934 and 32 per cent in 1935. In this latter year Federal aid was equivalent to half of the state tax revenues. From this point forward Iowa's struggle with depressed economic conditions depended less on direct Federal assistance and more on the reorganized tax system. Currently Federal aid is slightly less than 15 per cent of total state revenues.

In its financial relations with local units of government in the period since 1920 the State has made substantial percentage increases in direct aid and the sharing of taxes. Up to 1947 nearly the entire amount of these payments (averaging 15 million dollars annually during the past decade) had been earmarked for streets and roads. Approximately eight million dollars was required to service primary road bonds issued by the counties to construct state highways. The counties also received four-ninths of the three cent motor fuel levy and one-half of the motor carrier taxes. Since 1946 both the municipalities and counties have participated in sharing to the extent of the net proceeds of an additional tax of one cent on motor fuel. In the aggregate, these aids and shared taxes when related to state revenues are a much smaller contribution to local finances than is made in the majority of states.

Beginning in 1936 the homestead credit has been a substantial part of total state expenditure, roughly comparable to the amounts of local aids and shared taxes in these years.

Other increases in Iowa government costs since 1920 are due to outlays for highway construction and maintenance and to the assumption of responsibility by the State for furnishing relief to the unemployed and economic security to the aged and other dependent groups. Highway expenditures expanded rapidly during the 1920's and attained a relatively stable annual level of between 15 and 20 million dollars during the 1930's. The amounts spent during the war and postwar years, however, are substantially below prewar levels.

Relief expenditures in Iowa began in 1933 and were made by the Iowa Emergency Relief Commission from Federal, state, and local funds. The peak in these expenditures was reached in 1935. The Social Security program began in 1935 and has involved a steadily increasing outlay each year thereafter. The present annual cost is in excess of 20 million dollars.

[1]Operating funds are those used in the day-to-day management of the State's business. In addition to the general and road funds the classification includes a variety of accounts earmarked for the receipt of specified revenue and restricted as to disbursement. The Unemployment Compensation Trust Fund, the operations of the liquor monopoly, and the State Sinking Fund for Public Deposits, and funds for which the State acts as a trustee are excluded. See footnote to accompanying table for detailed list of funds included.

There is nothing in the record of this period, which includes years of prosperity and severe depression, which suggests precedents for departing from a policy of the approximate annual balancing of the State's income and outgo. The preponderance of evidence is to the contrary—even in the most difficult years large deficits were avoided. The comparatively large cash and investment balance now on hand suggests that state expenditures during the next two years may exceed revenues without in any manner weakening the State's financial condition. Whether or not this occurs depends very largely on economic conditions and their inevitable effect upon tax yields. Just as the principal taxes in the present Iowa revenue system have exhibited sensitivity to advancing prices and a high level of employ-

RECEIPTS, DISBURSEMENTS, AND BALANCES
STATE OF IOWA OPERATING FUNDS[1]
FISCAL YEARS 1920-47
(In millions of dollars)

Year Ending June 30	Receipts						Disbursements					Balance[11]
	Total[2]	Taxes[3]	Federal Aid[4]	From Counties[5]	Loans[6]	Earnings[7]	Total[2]	General[8]	Homestead Credit	Local Aid[9]	Shared Taxes[10]	
1920	21.1	17.0	.5	1.5	.1	2.0	15.6	13.5	—	.5	1.6	11.0
1921	23.0	18.0	1.6	1.9	.1	1.4	22.7	22.0	—	.5	.2	11.3
1922	27.5	19.9	3.9	2.2	.1	1.4	30.3	29.6	—	.7	—	8.5
1923	44.4	23.4	2.8	3.7	12.8	1.7	39.7	39.1	—	.6	—	13.2
1924	41.4	24.9	2.7	3.0	9.2	1.6	41.0	40.4	—	.6	—	13.6
1925	33.5	27.0	2.0	2.6	—	1.9	32.4	31.4	—	.6	.4	14.7
1926	36.7	30.8	1.4	2.1	—	2.4	33.5	29.9	—	.5	3.1	17.9
1927	38.5	30.6	3.0	2.7	—	2.2	37.4	32.9	—	.9	3.6	19.0
1928	41.9	33.2	3.9	2.2	—	2.6	42.9	36.3	—	3.0	3.6	18.0
1929	41.6	34.0	2.9	2.7	—	2.0	43.2	36.4	—	3.1	3.7	16.4
1930	47.8	38.8	2.7	4.1	—	2.2	49.1	40.3	—	4.4	4.4	15.1
1931	58.2	39.2	5.4	11.4	—	2.2	57.6	47.5	—	5.4	4.7	15.7
1932	45.6	36.9	4.1	2.7	—	1.9	48.0	38.7	—	5.0	4.3	13.3
1933	43.1	31.1	7.5	2.7	—	1.8	40.8	31.7	—	5.3	3.8	15.6
1934	50.5	33.2	10.7	2.3	—	4.3	55.1	41.7	—	8.9	4.5	11.0
1935	73.0	45.6	23.6	1.9	—	1.9	65.1	51.9	—	8.0	5.2	18.9
1936	68.3	53.8	10.0	2.0	—	2.5	63.5	45.4	4.0	8.6	5.5	23.7
1937	80.2	63.0	13.3	1.9	—	2.0	73.8	47.6	11.6	8.6	6.0	30.1
1938	83.2	63.8	13.3	2.4	—	3.7	82.5	50.0	17.5	8.8	6.2	30.8
1939	82.6	62.9	12.7	2.8	—	4.2	83.4	57.1	11.9	7.6	6.8	30.0
1940	85.8	65.1	12.0	5.1	—	3.6	82.3	54.1	12.5	9.0	6.7	33.5
1941	94.8	70.0	15.4	5.9	—	3.5	89.7	60.9	13.0	9.1	6.7	38.6
1942	97.1	75.5	13.1	4.9	—	3.6	90.1	60.7	13.6	8.9	6.9	45.6
1943	89.9	67.2	14.0	5.6	—	3.1	81.5	53.2	14.0	9.0	5.3	54.0
1944	90.3	66.8	12.9	5.7	—	4.9	75.4	47.3	14.3	8.8	5.0	68.9
1945[12]	92.5	70.0	12.9	5.8	—	3.8	79.1	50.9	14.5	8.7	5.0	82.3
1946[12]	108.4	86.1	11.6	6.4	—	4.3	86.4	53.9	15.2	8.7	6.4	104.3
1947[12]	142.7	112.1	20.0	6.7	—	3.9	123.8	*	*	*	*	123.2

[1]Consists of the General Revenue Fund, all special tax funds except beer tax revenues prior to 1941, all Federal grants except those made directly to state educational institutions, and all special receipts designated by the legislature for specific purposes. Specifically, the following are included: General Revenue, Capitol Grounds Extension (1920-30), Soldiers' Bonus Bond (1923-47), Soldiers' Bonus Tax (1923-47), and Additional Bonus and Disability Funds (1933-47) held by the state and county treasurers; Gasoline License Fees (1925-47), Gasoline Administration, and Gasoline Refund Funds (1925-47); Primary Road Fund held by state and county treasurers (1924-47) and the Primary Road Contingent Fund (in 1924 and thereafter increases and decreases in this fund are offset against disbursements of the Primary Road Fund); earnings of the Liquor Control Commission (1924-47) and of miscellaneous boards and commissions; Three Point Tax Fund (including sales and individual and corporation income taxes [1934-47]), Use Tax Fund (1937-47) and Chain Store Tax and Protest Account (1936-40); Old Age Pension (1934-47), Aid to Blind Pension (1939-47), and Aid to Dependent Children Funds (1944-47); and all Federal grants for education (except those made directly to state universities and colleges), highways, relief (1933-36), and social security. Excludes payroll taxes and withdrawals for benefit payments from the Unemployment Compensation Trust Fund, costs incurred in the operation of state liquor stores, beer revenues and interest payments diverted to the State Sinking Fund, and payments to common school and university trust funds and the Old Age and Survivors' Insurance Trust Fund. Also excludes revenues from student fees and business enterprises at the state colleges and universities.

[2]Less transfers, refunds, and disbursements for investment.

[3]Includes the following: total amount of locally collected property tax for general state purposes, for capitol grounds extension (1920-25), for soldiers' bonus bond redemption (1924-44), and the equipment tax on transportation companies; personal and corporation income taxes (1935-47), inheritance, insurance, poll (1934-47), and miscellaneous business taxes; and general sales (1934-47), use (1937-47), cigarette (1922-47), beer (1941-47), liquor store earnings (1934-47), and miscellaneous sales taxes.

[4]Consists of grants for vocational education, except those made directly to the State College, vocational rehabilitation, highways (regular, emergency, and farm to market road funds), child welfare, unemployment compensation administration, social security, and public health.

[5]These are payments made for care of county patients in state institutions, for services of the State Highway Commission, and for one-fourth of the cost of aid to the blind and aid to dependent children programs.

[6]Includes proceeds from the sale of anticipatory warrants to finance the capitol ground extension program (1920-22) and from the sale of soldiers' bonus bonds (1923-24).

[7]Consists of fees and earnings of state welfare and penal institutions, interest on state funds, except during 1926 to 1941 when it was diverted to the State Sinking Fund, hunting and fishing license fees, and miscellaneous receipts by state departments, boards, and commissions. In 1944, includes two million dollars transferred from the State Sinking Fund.

[8]Includes expenditures for state colleges and universities, highways, state welfare and penal institutions, unemployment relief (1933-46), the social security programs (1935-46), and general state administration.

[9]Made for interest payments and retirement of primary road bonds, education, and aid to county fairs.

[10]In 1920 and 1921, consists of the counties' share of the state collected motor vehicle taxes; in 1925 and thereafter, of the gasoline tax; and in 1926 and thereafter, of the taxes on motor carriers.

[11]Includes cash on hand in state and county treasuries for all funds described above. Also includes investment balances of the General Fund and the Additional Bonus and Disability Fund and the working balance of the Liquor Control Commission.

[12]Subject to revision.

*Not available.

SOURCES: Iowa State Budget (biennial), *Report of Treasurer of State* (biennial), *Cash Financial Statement, State of Iowa,* (quarterly reports for fiscal years 1945-47), and office of the State Comptroller.

ment, they will be vulnerable to the effects of falling prices and a period of declining business activity. The sales and use taxes have been abnormally productive in the past year and may continue so for a limited time because of large purchases of such capital goods as automobiles and farm equipment. The Iowa economy is dependent in large measure on agricultural conditions; as long as agriculture prospers, state revenues are in slight jeopardy.

PLANS FOR 1947-49

The obligations of a state government for service are reappraised biennially by the general assembly. Since no general assembly may restrict the discretion of its successors except by following a prescribed constitutional procedure, it is ordinarily impractical to focus detailed attention upon the future of state finances beyond the biennial period. The 52nd Iowa General Assembly has recently completed its task of formulating a revenue and expenditure plan for the State for the period ending June 30, 1949. What effect will this plan have on the State's financial condition?

As was indicated in the previous article on Iowa state finance, the 52nd General Assembly has fortified the State's revenue system in anticipation of the possibility of some decline in tax yields during the next two years. The abatement of 50 per cent of the personal income tax, which was in force for the years 1942-46, was discontinued for the income year of 1947. The beer tax was doubled, and the markup on the liquor monopoly sales sufficiently increased to permit the transfer to other state funds of an amount equivalent to 10 per cent of gross receipts. These measures were calculated to provide a modest amount of insurance (10 to 15 million dollars annually) for financing an expanded expenditure program without an excessive reduction in the cash and investment balance in the state treasury.

The annual expenditure of the State during the next two years can be only partially determined from the regular biennial appropriations. Even assuming that all amounts appropriated are spent, certain items of expenditure are covered by appropriations that are indefinite in amount or contingent on the yield of a specified tax; and other items, such as Federal aid and the earnings of earmarked funds, are not included in the regular budget. An over-all view of state finance, therefore, requires supplementary estimates of these amounts in addition to the budgeted items.

The appropriation items that can be determined with relative certainty include operating expenses of general departments, which are expected to be approximately 2.3 million dollars higher than in 1947, institutional expenses under the Board of Control, 1.7 million dollars more; Board of Education appropriations, 4.7 million dollars more; and the State share of Social Security costs, up 2.2 million dollars.

The estimates of expenditures for relief to property taxpayers and aids to local government are dependent in part on liquor monopoly profits and motor tax fuel yields. Prior experience is of limited value in estimating these items because the aid programs were substantially revised by both the 51st and 52nd General Assemblies. Ensuing litigation, some of which was belatedly settled, and some of which is still pending, has distorted the timing of the actual disbursement of the funds from that originally contemplated. Taking these factors into account, relief to property owners, which includes the three property tax credit programs (homestead, agricultural land, and military service), will probably be about six million dollars higher in 1948 and 1949 than in 1947. The direct aids to local governments (the public schools, the cities and towns, and the highway aids to counties and municipalities) will increase about an equal amount.

The expenditures for highways and public buildings in the next biennium are most difficult to estimate because of conditions in the construction industry and the fact that most of the authorized expenditure can and may be postponed. So far as available funds and legislative sanction are concerned, construction projects could amount to as much as 30 million dollars in each of the years 1948 and 1949. The actual expenditure, however, will more likely be less than one-half of this amount.

Considering the State's over-all budget these estimates suggest an increase over the 1947 level of expenditure in the neighborhood of 35 to 40 million dollars. State tax revenues at the rate of yield in the fiscal year 1947, plus the income from higher taxes adopted by the last legislature, and increases in Federal aid for highways and social security, will amount to about 160 million dollars. It is doubtful, therefore, that the State will fully cover the estimated increase in expenditure, but the drain on the present cash and investment balance will likely be small, unless there is a marked depression in economic and agricultural conditions adversely affecting tax revenue.

There is no rule of thumb for determining the amount of a reasonable cash balance for operating a state government which cannot resort to short-term deficit financing. Since the Iowa constitution prohibits borrowing for casual deficits in excess of $250,000, any flexibility in the relationship of revenues to expenditures must be reflected in the balance on hand. The experience of past years is pertinent, but historical relationships are subject to misinterpretation because of changes in the fund structure of the State. During periods of moderate stringency, some states are known to have experienced severe financial distress because their fund structure segregated total cash into a large number of earmarked pockets which could only be employed for specified purposes. This practice sterilizes, temporarily at least, large amounts of cash and requires a considerably larger cash balance for conservative operation than would otherwise be necessary. In eliminating several segregated funds, the 52nd General Assembly has done away with at least some of the requirements that prevailed in former years.

The size of the balance that ought to be kept on hand is also dependent on the stage of the business cycle. In periods of prosperity the balance will be larger than in periods of severe depression. Balances in other Midwestern states are roughly comparable to those of Iowa and evidence the same characteristics, dropping below a two-month expenditure level in depression and rising to as high as a full year's expenditure in prosperity.

LIVESTOCK AND MEAT SITUATION

(*Continued from Inside Front Cover*)

of 1947 was the smallest since 1941, and further decreases during the year probably are occurring. This will reduce, to some extent, the adverse effects of a curtailed corn crop on the number of cattle put on feed this fall. However, if the current corn crop should fail to mature before killing frosts this fall, a distinct possibility in view of the adverse spring weather and delayed planting, large amounts of soft corn would have to be disposed of by feeding it to livestock during the fall and winter months. Such a development would cause many farmers to seek mature feeder steers as an outlet for such feed even though the total production of corn is substantially less than for recent years. In general, it appears that a strong demand for feeder cattle will be a price supporting influence during the heavy marketings this fall.

DEMAND CONTINUES STRONG

Consumer incomes were at record levels in June, and the domestic demand for meat has continued exceptionally strong. Historically there is a close relationship between the level of income payments to individuals and the demand for meat. In recent months, consumers have spent more of their incomes for meat than would be expected from past relationships of income to meat expenditures. Foreign demand also was strong, and exports were about double the 1937-41 average. During the first half of 1947, exports of meat apparently totaled only 300 to 400 million pounds compared with 900 million in the first half of 1946. In the second half of the year, exports may be as large as or larger than the 240 million pounds shipped in the second half of 1946.

Meat animal prices in mid-July approximated the peak reached in March and were 47 per cent above mid-June a year earlier when price ceilings were in effect. Cash receipts to United States farmers from sales of meat and meat animals in the first half of 1947 were about 60 per cent higher than a year earlier and for the year are likely to exceed by a substantial margin the record receipts of seven billion dollars in 1946.

In the Seventh Federal Reserve District states cash receipts to farmers from sales of livestock and livestock products (dairy and poultry products included) during the first four months of 1947 totaled 1,718 million dollars, 45 per cent more than for the corresponding period a year earlier.

Although exports of meat in 1947 have been a small part of total production, exports of other goods have limited the supply of such items in the domestic market, while maintaining high levels of income payments to the producers of raw materials and to the labor employed in producing the exported items. This situation has had an inflationary or price supporting influence upon the whole economy. Farm products, due to their rigidity of supply, are particularly sensitive to changes in the level of economic activity. Any letdown in employment and income payments would result in reduced demand and price declines for most farm products.

The anticipated high volume of production of meat during the fourth quarter of 1947, if realized, may result in a decline in livestock and meat prices of around 15 per cent from third quarter levels. Any decline in demand due to reduced employment or income payments would accentuate the price decline. Also, with increasing supplies of non-food items consumers may shift in the direction of prewar patterns of expenditures which would reduce the domestic demand for meat.

1948 PRODUCTION MAY DECLINE

Production of meat in 1948 is likely to fall below the high level prevailing in 1947 due to reduced supplies of feeds and fewer animals on farms. The July crop reports indicate that production and carry-over of the major feed grains for 1947-48 will total about 10 per cent less than a year earlier. The supply per grain-consuming animal also is below the previous year, but above the average for the past 10 years. Large supplies of hay and other roughage feeds available for the next feeding year will encourage cattle feeding even though grain supplies are limited. However, cattle slaughter will decline from the high level realized during 1947, but the timing of the decline is dependent upon the level at which the current liquidation of cattle inventories ceases.

Breeding for the 1948 spring pig crop will be determined largely by the size of the 1947 corn crop and the relationship between corn and hog prices late in 1947. If the foreign demand for grain continues large, it is entirely possible that the 1948 spring pig crop may be smaller than the 53 million head produced this year. Such a development would reduce pork production in the fourth quarter of 1948 and, if accompanied by prospects for a large 1948 corn crop, would result in a favorable hog-corn price ratio at that time. This might well be the turning point in the hog cycle, resulting in increased breedings for the 1949 spring pig crop.

PRICE SUPPORTS FAR BELOW CURRENT PRICES

The average prices received by farmers for meat animals, parity prices, and actual prices as a per cent of parity on July 15, 1947, according to the U. S. Bureau of Agricultural Economics were as follows:

Commodity	Farm Price	Parity Price	Actual Price As a Per Cent of Parity
Hogs	$23.60	$16.80	140
Beef cattle	19.80	12.50	158
Veal calves	20.80	15.60	133
Lambs	21.10	13.60	155

Current livestock prices are much higher relative to parity prices than are other farm products and, therefore, could decline much more before requiring support under present agricultural legislation. Grain prices may decline promptly to support levels with any significant reduction in export demand. However, meat animal prices are supported at present levels largely by the strong domestic demand and can be expected to break sharply only with a decline in domestic activity. A decline in domestic economic activity, of course, is likely to occur simultaneously with a decline in the currently high volume of total exports.

SEVENTH FEDERAL

RESERVE DISTRICT